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CITY OF REDLANDS
Redlands, California

Single Audit Report on Federal Awards

Year ended June 30, 2008

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CITY OF REDLANDS
Single Audit Report on Federal Awards
Year ended June 30, 2008

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Honorable Mayor and City Council
City of Redlands, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redlands, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Redlands' basic financial statements and have issued our report thereon dated December 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Redlands' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Redlands' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Redlands' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Redlands' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

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of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. In a separate letter dated December 22, 2008, we have communicated to management our recommendations regarding certain other matters for consideration by the City.

This report is intended solely for the information and use of the City Council, management of the City of Redlands, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 22, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Redlands, California with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The City of Redlands' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Redlands' management. Our responsibility is to express an opinion on the City of Redlands' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Redlands' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Redlands' compliance with those requirements.

In our opinion, the City of Redlands, California complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Redlands is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Redlands' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Redlands' internal control over compliance.

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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redlands as of and for the year ended June 30, 2008, and have issued our report thereon dated December 22, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise of the City of Redlands' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the City Council, management of the City of Redlands, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nayer Hoffman McCann P.C.

Irvine, California
February 25, 2009, except for the schedule of expenditures of federal awards, as to which the date is December 22, 2008.

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Catalog of Federal Domestic Assistance <u>Number</u>	Grant <u>Number</u>	Program <u>Expenditures</u>
U.S. Department of Justice:			
Office of Community Oriented Policing Services:			
Direct assistance:			
COPS 2003 Technology	16.710	2003CKWX0317	\$ 149,953
COPS 2004 Technology	16.710	2004CKWX0054	42,258
COPS Universal Hiring	16.710	2003UMWX0016	23,018
COPS Universal Hiring	16.710	2004UMWX0151	8,102
COPS 2006 Technology	16.710	2006CKWX0160	12,481
COPS 2006 Technology	16.710	2006CKWX0344	305,584
2005 COMPASS	16.592	2005CKWX0351	<u>29,495</u>
			570,891
Office of Justice Program:			
Passed through the County of San Bernardino:			
Byrne Justice Assistance Grant	16.579		<u>33,127 *</u>
Subtotal - U.S. Department of Justice			<u>604,018</u>
U.S. Department of Homeland Security:			
Direct assistance:			
Assistance to Firefighters Grant	97.044	EMW-2006-FG-05613	50,400
Passed through California Office of Emergency Services:			
Pre-Disaster Mitigation Competitive Program	97.047	071-59962	14,342
FEMA Flood Mitigation Assistance	97.029	071-59962	8,305
Passed through the County of San Bernardino			
Office of Emergency Services:			
Emergency Management Performance Grant	97.042		19,886 *
Homeland Security	97.004		<u>1,101 *</u>
Subtotal - U.S. Department of Homeland Security			<u>94,034</u>

See accompanying notes to the schedule of expenditures of federal awards.

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Schedule of Expenditures of Federal Awards

(Continued)

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Grant Number	Program Expenditures
U.S. Department of Housing and Urban Development:			
Passed through the County of San Bernardino			
Department of Community Development			
and Housing:			
Community Development Block Grant	14.218	111	101,095
Neighborhood Initiative Program	14.219	99-452/502-02302	<u>1,909,036 (1)</u>
Subtotal – U.S. Department of Housing and Urban Development			<u>2,010,131</u>
National Highway Traffic Safety Administration:			
Passed through the State of California Business, Transportation and Housing Agency, Office of Traffic Safety:			
Redlands Traffic Safety	20.600	PT0607	27,554
Sobriety Checkpoint	20.600	SC073612	8,139
Selective Traffic Enforcement	20.600	PT0807	197,071
Passed through the City of Victorville:			
Avoid 25	20.600	AL0517	13,996
Passed through University of California, Berkeley:			
Click it or ticket	20.600	CT073604	<u>671</u>
Subtotal – National Highway Traffic Safety Administration			<u>247,431</u>
U.S. Department of Transportation:			
Direct Assistance:			
Redlands Municipal Airport	20.106	DTFA08-05-C-21955	91,997
Passed through California Department of Transportation:			
Parking Structure and Master Plan	20.106	TCSP-E2CA(010)	<u>13,746</u>
Subtotal – U.S. Department of Transportation			<u>105,743</u>
Total Federal Awards			<u>\$3,061,357</u>

* Grant numbers where not available for these programs.
(1) Major Program

See accompanying notes to the schedule of expenditures of federal awards.

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Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures Federal Awards

(a) Scope of Presentation

The accompanying schedule presents the award expenditures incurred (and related award receivable) by the City of Redlands that are reimbursable under programs of federal agencies providing financial assistance. For the purposes of this schedule, federal awards includes federal financial assistance received directly from a federal agency, and federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with state (except those listed in this report), local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal programs.

(c) Relationship to Basic Financial Statements

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards are included in various funds in the City's basic financial statements.

(d) Relationship to Federal Financial Reports

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related Federal financial reports. However, certain Federal Financial Reports are filed on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the Federal financial reports.

(e) Payments to Subrecipients

No payments were made to subrecipients during the year ended June 30, 2008.

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Notes to the Schedule of Expenditures of Federal Awards

(Continued)

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures Federal Awards, (Continued)

(f) Program Loans

The City has a loan made by the State of California, Department of Water Resources in the amount of \$5,005,486 as of June 30, 2008 to assist in financing the construction of advanced wastewater treatment facilities at the existing wastewater treatment plant. The note carries an annual interest rate of 2.5% with principal and interest payments due annually starting November 30, 2005.

The City also has a loan made by the State of California Department of Health Services in the amount of \$5,735,160 as of June 30, 2008 to assist in financing construction of a project which will enable the City to meet safe drinking water standards. The note carries an annual interest rate of 2.34% with principal and interest payments due every six months starting January 1, 2006.

CITY OF REDLANDS
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses or other significant deficiencies in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was CFDA #14.219 Neighborhood Initiative Program (passed through assistance from the County of San Bernardino).
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee was considered a low risk auditee for the year ended June 30, 2008 for the purpose of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There are no auditors' findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

CITY OF REDLANDS
Summary Schedule of Prior Audit Findings
Year ended June 30, 2008

There were no audit findings from the previous audit report issued for the year ended June 30, 2007.